The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2006: budgetary surplus of $2.2 billion

There was a budgetary surplus of $2.2 billion in June 2006, up $0.7 billion from the surplus in June 2005. Revenues increased by $1.5 billion due mainly to strong growth in income tax revenues. Program expenses increased by $0.7 billion, primarily reflecting increases in other program expenses, notably defence spending. Public debt charges were up $0.1 billion.

April to June 2006: budgetary surplus of $5.4 billion

For the first three months of the 2006–07 fiscal year, the budgetary surplus is estimated at $5.4 billion, up $2.1 billion from the $3.3-billion surplus posted in the same period of 2005–06. Revenues were up $3.4 billion, reflecting strong growth in income tax revenues, slightly offset by a decline in excise taxes and duties and employment insurance (EI) premiums. Program expenses were up $1.3 billion, or 3.2 per cent, due to both higher transfers and increased other program expenses. Public debt charges were down slightly.

It should be noted that more than two-thirds of the $14.3 billion in tax reductions and expenditure increases for 2006–07 announced in the 2006 budget, including the goods and services tax (GST) reduction and the introduction of the Universal Child Care Benefit, which did not come into effect until July 1, are not reflected in the monthly results to date. Therefore the fiscal results to date are not representative of the developments expected over the remainder of 2006–07.

Quarterly update of 2006–07 surplus projection: surplus expected to somewhat exceed Budget 2006 projection of $3.6 billion

Since the May budget, there have been a number of economic and fiscal developments that influence the outlook for 2006–07. In particular, preliminary year-end results for 2005–06 and data for the first three months of this fiscal year are now available.

Although final audited 2005–06 results will not be available until the fall, preliminary 2005–06 results and year-to-date revenue and expense data suggest that the budgetary surplus for 2006–07 will somewhat exceed the Budget 2006 projection of $3.6 billion. The degree to which the actual surplus for 2006–07 differs from the Budget 2006 projection will depend on the final audited outcome for 2005–06, the carry-forward of these results to 2006–07, and economic developments through the remainder of this fiscal year.

June 2006

There was a budgetary surplus of $2.2 billion in June 2006, up $0.7 billion from June 2005.

Budgetary revenues increased by $1.5 billion, or 8.1 per cent, to $19.3 billion.

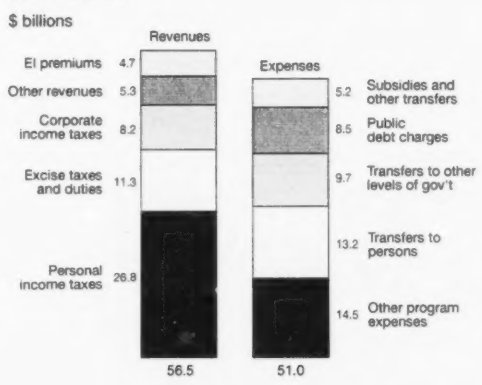
- Personal income tax revenues were up $1.1 billion, or 13.3 per cent. This reflects solid growth in employment and wages and salaries as well as strong growth in tax revenues relative to this base, which in turn reflects the interaction of real income gains and the progressivity of the tax system.
- Corporate income tax revenues rose $139 million, or 4.9 per cent, in June following a 20.5-per-cent increase in May.
- Other income tax revenues—withholdings from non-residents—increased by $27 million, or 8.6 per cent.
- Excise taxes and duties were up $167 million, or 4.7 per cent. This increase is largely due to a $169-million, or 7.1-per-cent, rise in GST revenues, following a 12.9-per-cent decrease in GST revenues in May.
- EI premiums were down 7.6 per cent, reflecting both the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up $0.2 billion. This component of revenues can be volatile on a monthly basis.

Program expenses were $14.2 billion in June 2006, up $0.7 billion, or 4.8 per cent, from June 2005, reflecting increases in other program expenses, notably defence spending.

Transfer payments were up $68 million, or 0.8 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and child tax benefits, were up $81 million, or 1.9 per cent. Elderly benefits increased 4.7 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased 6.0 per cent, reflecting declines in regular and maternity benefits. Child tax benefits were up 3.7 per cent.
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were down $132 million, or 4.0 per cent, reflecting a decline in fiscal transfers, slightly offset by an increase in federal transfers in support of health and other social programs.

Revenues and expenses
(April-June 2006)



- Subsidies and other transfers increased by $119 million, or 8.0 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations, the expenses of certain foundations, and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. On a year-over-year basis, these expenses increased $0.6 billion, or 12.9 per cent, with higher defence expenses responsible for roughly half of this increase.

Public debt charges increased by $71 million.

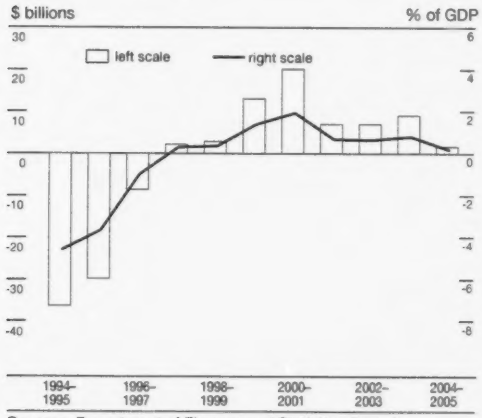
April to June 2006

In the first three months of the 2006–07 fiscal year, there was a budgetary surplus of $5.4 billion, $2.1 billion higher than the $3.3-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up $3.4 billion, or 6.4 per cent, to $56.5 billion.

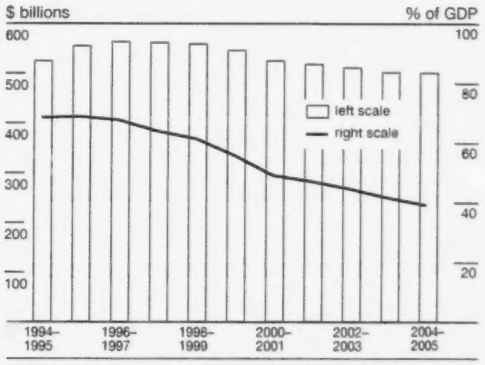
- Personal income tax revenues rose $3.1 billion, or 13.3 per cent, reflecting ongoing growth in employment and wages and salaries, combined with the progressivity of the personal income tax system.
- Corporate income tax revenues were up $0.6 billion, or 7.4 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005. While the accelerated elimination of the federal capital tax announced in Budget 2006 was retroactive to January 2006, it is not yet reflected in corporate income tax collections. The measure should be reflected in instalment payments in the coming months.
- Other income tax revenues increased by $0.1 billion, or 13.4 per cent.
- Excise taxes and duties declined by $0.2 billion, or 1.4 per cent, due to declines in GST and sales and excise tax revenues. GST revenues decreased $0.1 billion, or 1.2 per cent, compared to an increase of almost 9 per cent in retail sales over the corresponding period. This weakness is largely the result of unusually strong GST growth during the same period last year, as well as weak growth in GST on imports over the April to June 2006 period. The growth in net GST receipts is expected to move more into line with that of retail sales as the year progresses, abstracting from the impact of the reduction in the tax rate. Sales and excise taxes were down $0.1 billion, or 3.5 per cent, while customs import duties and revenues from the Air Travellers Security Charge were up $10 million and $6 million respectively.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- EI premiums were down 7.2 per cent, reflecting the reduction in the premium rate on January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose $127 million, or 3.0 per cent.

Program expenses in the April to June 2006 period were $42.6 billion, up $1.3 billion or 3.2 per cent from the same period of 2005–06, largely due to higher transfers and increased defence spending. Public debt charges declined by $30 million.

Transfer payments, which account for about two-thirds of total program expenses, increased by $0.6 billion, or 2.2 per cent.

- Transfers to persons advanced by 1.0 per cent. Elderly benefits were up 4.5 per cent while EI benefits were down 8.0 per cent. The year-to-date decline in EI benefits is mainly due to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity benefits are also down year-to-date, reflecting the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province.
- Transfers to other levels of government were up $0.1 billion, or 1.1 per cent, largely due to the impact of the 2004 agreement on health care.
- Subsidies and other transfers increased by $0.4 billion, or 7.2 per cent, reflecting the impact of recent budget measures.

Other program expenses increased by $0.7 billion, or 5.2 per cent, mainly due to a $0.6-billion, or 20.1-per-cent, increase in defence spending.

Public debt charges were down 0.4 per cent due to a decline in the stock of interest-bearing debt.

Financial source of $0.3 billion for April to June 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $5.1 billion in the April to June 2006 period, down $3.5 billion from the $8.7-billion requirement in the same period of 2005–06.

With a budgetary surplus of $5.4 billion and a net requirement of $5.1 billion from non-budgetary transactions, there was a financial source of $0.3 billion in the first three months of 2006–07 compared to a financial requirement of $5.4 billion in the same period of 2005–06.

Net financing activities down $15.5 billion

The Government used this financial source of $0.3 billion and a reduction in its cash balances of $15.2 billion to reduce its market debt by $15.5 billion by the end of June 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of June stood at $2.7 billion.

Quarterly update of the fiscal outlook for 2006–07

This section provides a qualitative update of the fiscal outlook for 2006–07 based on preliminary fiscal results for 2005–06 and fiscal data for the current fiscal year to date. A full and comprehensive update of the fiscal outlook will be provided in the fall Economic and Fiscal Update, which will incorporate the final audited results for 2005–06 presented in the *Annual Financial Report of the Government of Canada* and the most recent economic outlook by private sector economists.

Overview

The budgetary surplus for 2006–07 is now expected to somewhat exceed the Budget 2006 projection of $3.6 billion, reflecting lower expected program expenses. Total revenues are expected to be largely unchanged from the Budget 2006 outlook.

Economic outlook

Based on the June survey of private sector economic forecasters, the outlook for real gross domestic product (GDP) growth has been revised up marginally to 3.1 per cent in 2006 and 2.8 per cent in 2007, but the forecast for GDP inflation has dropped significantly this year. As a result, nominal GDP growth in 2006 has been revised down to 5.2 per cent from 6.0 per cent projected in Budget 2006. Nominal GDP growth in 2007 has been revised up slightly from 4.6 per cent to 4.8 per cent. A new survey of private sector forecasters will be conducted in September, after the release of the second-quarter National Accounts, and the revised economic outlook will be used to update the fiscal projections to be presented in the fall Economic and Fiscal Update.

Fiscal outlook

The budgetary surplus for 2006–07 is currently expected to somewhat exceed the Budget 2006 projection of $3.6 billion. The improvement reflects lower expected program expenses, largely due to lower estimated program expenses for the 2005–06 fiscal year. Total revenues are expected to be largely unchanged from the Budget 2006 outlook. The degree to which the actual surplus for 2006–07 exceeds the Budget 2006 projection will depend on the final audited outcome for 2005–06, the carry-forward of lower program expenses to 2006–07, and economic developments through the remainder of this fiscal year.

Based on results through March 2006, corporate income taxes are expected to be weaker than projected in the 2006 budget, and this weakness is expected to carry forward into 2006–07. Personal income tax revenues are expected to be stronger than projected in the 2006 budget. Monthly financial results for the April to June period indicate that the strong growth in personal income tax receipts seen last year is continuing so far this year, reflecting strong growth in employment and wages and salaries combined with the progressivity of the personal income tax system.

The results for 2005–06 must still be finalized and audited, and will be published in the *Annual Financial Report of the Government of Canada* in the fall. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.

Table 1
Summary statement of transactions

	June		April to June	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	17,806	19,256	53,058	56,480
Expenses				
Program expenses	-13,533	-14,188	-41,246	-42,554
Public debt charges	-2,845	-2,916	-8,517	-8,487
Budgetary balance (deficit/surplus)	1,428	2,152	3,295	5,439
Non-budgetary transactions	-4,937	-4,660	-8,661	-5,130
Financial source/requirement	-3,509	-2,508	-5,366	309
Net change in financing activities	-3,926	-5,501	-8,317	-15,490
Net change in cash balances	-7,435	-8,009	-13,683	-15,181
Cash balance at end of period			3,441	2,749

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	June			April to June		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,035	9,103	13.3	23,688	26,827	13.3
Corporate income tax	2,836	2,975	4.9	7,680	8,249	7.4
Other income tax revenue	313	340	8.6	887	1,006	13.4
Total income tax	11,184	12,418	11.0	32,255	36,082	11.9
Excise taxes and duties						
Goods and services tax	2,383	2,552	7.1	8,195	8,100	-1.2
Customs import duties	282	289	2.5	797	807	1.3
Sales and excise taxes	846	836	-1.2	2,404	2,319	-3.5
Air Travellers Security Charge	28	29	3.6	90	96	6.7
Total excise taxes and duties	3,539	3,706	4.7	11,486	11,322	-1.4
Total tax revenues	14,723	16,124	9.5	43,741	47,404	8.4
Employment insurance premiums	1,645	1,520	-7.6	5,105	4,737	-7.2
Other revenues	1,438	1,612	12.1	4,212	4,339	3.0
Total budgetary revenues	17,806	19,256	8.1	53,058	56,480	6.4

Note: Totals may not sum due to rounding.

Table 3

Budgetary expenses

	June			April to June		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,405	2,518	4.7	7,203	7,530	4.5
Employment insurance benefits	995	935	-6.0	3,520	3,238	-8.0
Child tax benefits	757	785	3.7	2,304	2,392	3.8
Total	4,157	4,238	1.9	13,027	13,160	1.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	4,750	5,035	6.0
Canada Social Transfer	685	708	3.4	2,056	2,125	3.4
Total	2,268	2,386	5.2	6,806	7,160	5.2
Fiscal transfers	1,320	1,084	-17.9	3,498	3,296	-5.8
Canada's cities and communitites	0	0	n/a	0	0	n/a
Alternative Payments for Standing Programs	-254	-268	5.5	-761	-805	5.8
Total	3,334	3,202	-4.0	9,543	9,651	1.1
Subsidies and other transfers						
Agriculture	168	132	-21.4	644	669	3.9
Foreign Affairs and International Trade	125	94	-24.8	507	529	4.3
Health	136	102	-25.0	410	414	1.0
Human Resources Development	134	110	-17.9	457	499	9.2
Indian and Northern Development	360	318	-11.7	1,330	1,292	-2.9
Industry and Regional Development	221	172	-22.2	428	351	-18.0
Other	335	670	100.0	1,099	1,472	33.9
Total	1,479	1,598	8.0	4,875	5,226	7.2
Total transfer payments	8,970	9,038	0.8	27,445	28,037	2.2
Other program expenses						
Crown corporation and foundation expenses						
Canadian Broadcasting Corporation	75	85	13.3	355	415	16.9
Canada Mortgage and Housing Corporation	150	88	-41.3	518	468	-9.7
Other	322	347	7.8	1,123	1,151	2.5
Total	547	520	-4.9	1,996	2,034	1.9
Defence	1,012	1,324	30.8	2,896	3,477	20.1
All other departments and agencies	3,004	3,306	10.1	8,909	9,006	1.1
Total other program expenses	4,563	5,150	12.9	13,801	14,517	5.2
Total program expenses	13,533	14,188	4.8	41,246	42,554	3.2
Public debt charges	2,845	2,916	2.5	8,517	8,487	-0.4
Total budgetary expenses	16,378	17,104	4.4	49,763	51,041	2.6

Note: Totals may not sum due to rounding.

Table 4

The budgetary balance and financial source/requirement

	June		April to June	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	1,428	2,152	3,295	5,439
Non-budgetary transactions				
Capital investing activities	-2,724	-125	-2,608	-112
Other investing activities	-202	-68	-569	452
Pension and other accounts	-112	1,134	-936	958
Other activities				
Accounts payable, receivables, accruals and allowances	-1,947	-5,430	-5,868	-8,201
Foreign exchange activities	-184	-393	589	1,078
Amortization of tangible capital assets	232	222	731	695
Total other activities	-1,899	-5,601	-4,548	-6,428
Total non-budgetary transactions	-4,937	-4,660	-8,661	-5,130
Net financial source/requirement	-3,509	-2,508	-5,366	309

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	-3,509	-2,508	-5,366	309
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,303	-2,961	-1,636	-1,899
Treasury bills	-400	-1,900	-4,900	-9,600
Canada Savings Bonds	-81	-92	-220	-218
Other	-139	-341	-139	-687
Total	-3,923	-5,294	-6,895	-12,404
Foreign currency borrowings	44	-46	-1,380	-2,823
Total	-3,879	-5,340	-8,275	-15,227
Cross currency swap revaluation	-1	0	-1	-2
Unamortized discounts on debt issues	-44	-142	-39	-227
Obligations related to capital leases	-2	-19	-2	-34
Net change in financing activities	-3,926	-5,501	-8,317	-15,490
Change in cash balance	-7,435	-8,009	-13,683	-15,181

Note: Totals may not sum due to rounding.

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